EVERYBODY'S BUSINESS

By David M. Kotz

The Downside of Supply Side

	1959	1969	1973	1979	1988
GNP growth rate, from previous peak year	2.5%	4.1%	3.2%	2.6%	2.5%
Government purchases as share of GNP	24.4%	24.4%	20.6%	19.1%	19.6%
Gross fixed investment as share of GNP	15.6%	15.9%	17.5%	17.6%	16.9%
Net fixed investment as share of GNP	6.3%	6.8%	7.9%	6.9%	5.0%
Consumer expenditure as share of GNP	60.1%	60.1%	61.6%	62.8%	64.9%
Personal saving as share of disposable income	6.3%	6.4%	9.4%	6.8%	4.1%

Source: Economic Report of the President, 1989

The Reagan years are now history, and the bold claims about a new economic direction for America can be compared to the record. The chief claim was that getting the federal government off the backs of business would lead to a new, more solidly based prosperity.

Prosperity in the bad old days was said to come from the "artificial" stimulation of big government spending, inspired by Keynesian "demand side" economic policies. Such artificially created prosperity was dangerous, it was said, because it relied on state expansion rather than productive investment by private businesses.

The Reagan administration introduced "supply side" policies, intended to promote private initiative by cutting back or eliminating interventionist programs. A combination of tax cuts; loosening of environmental, job safety and anti-monopoly regulations; and cutbacks in social welfare programs were supposed to unleash a vast wave of private saving and investment. This would increase the economy's productive capacity and bring rapid yet sustainable economic growth.

The American economy has indeed expanded without interruption for an unusually long period. Contrary to the oft-repeated media claims, it is not the longest expansion in this century. At this time it ranks as the third-longest. The longest was 1961-69 (eight years, 10 months), and the next was 1938-44 (six years, eight months), compared to the six years, six months of expansion since the beginning of 1983. The alternative claim, that this is the longest *peacetime* expansion, is a hollow one, given that the '80s witnessed an enormous military buildup, with military spending growing at 7 percent per year in real terms during 1981-87.

Nevertheless, the '80s expansion has been unusually long, with important political consequences, including the Bush election victory. But was this expansion different from earlier ones, as its promoters had promised? Is this a supply side expansion, fueled by a creative burst of saving and investment?

What has driven the expansion? The broadest measure of economic expansion is the growth of the gross national product (GNP), which measures the dollar value of goods and services produced and purchased during a year. GNP has three major components: consumer spending by households, investment spending by businesses, and government purchases (which includes salaries of federal, state and local government employees as well as purchases from private businesses). The fourth component of GNP, net exports, is relatively small.

Almost all economic data vary significantly over the course of the boom-and-bust cycle. To avoid misleading conclusions about performance over time, one should compare years from the same part of the business cycle. Since most economists expect the current expansion to end in 1989 or 1990, the '80s expansion can be judged by comparing 1988 data with earlier business-cycle peak years. The last four peak years were 1979, 1973, 1969 and 1959.

The accompanying table provides inflation-corrected data to compare the '80s expansion with past expansions. First, it is evident that the 2.5 percent GNP growth rate in the '80s was slower than the rates for the '60s and '70s. Even more revealing is the change in the components of GNP. From 1969 to 1979 government actually shrank relative to GNP as its share declined from 24.4 percent to 19.1 percent. While government grew absolutely during that decade, the private sector grew faster. The Reagan military buildup reversed this trend. From 1979 to 1988, the government share of GNP rose somewhat, to 19.6 percent.

It's no surprise that supply side policies failed. Tax cuts and social welfare cuts have had a negligible effect on investment. Deregulation may save a few dollars but hasn't spurred growth.

When we search the data for the investment boom that was supposed to happen in the '80s, we do not find it. From 1959 to 1979, gross fixed investment had steadily increased its share of GNP, from 15.6 percent to 17.6 percent. But in the '80s the investment share declined to 16.9 percent. In fact, by other measures investment performed even worse in the '80s. *Net* fixed investment, which measures the increase in the capital stock after deduction of depreciation, fell in the '80s to a level substantially below that of the previous three decades.

The big gainer was not investment but consumer spending. It increased by two full percentage points over the 1979 level. Why did this happen? The 1981 Kemp-Roth tax bill lowered personal tax rates, particularly for wealthy households. This pumped purchasing power into the household sector. The combination of falling taxes and growing military spending brought us enormous budget deficits, which fueled the consumer spending boom.

The second reason consumer spending rose was that households spent more of their disposable (after-tax) income on consumer goods and the savings rate fell—to 4.1 percent of disposable income in 1988, less than half its 1973 level. The many regressive economic policy measures of the Reagan years, which were supposed to increase saving, produced the opposite effect: a consumer spending binge by high-income households.

Thus, the '80s expansion has been even more of a demand side expansion than previous postwar expansions. It was led primarily by rising consumer spending, fueled by government deficits and reduced household saving, and secondarily led by rising military spending. Contrary to expectations, investment and saving sagged by comparison to past expansions.

Why has the expansion lasted so long? Like the other two unusually long expansions of this century, this one was prolonged by government pump priming. Expansions usually last three to four years, but three years into the '80s expansion the federal budget deficit mushroomed to an unprecedented 5 percent of GNP. The continuing huge deficit has kept the expansion rolling along.

Another factor prolonging the expansion has been the absence of serious inflationary pressure. Normally, after three or four years of expansion inflation begins to accelerate, causing the Federal Reserve to tighten credit, which is one factor that sets off a recession.

Why did inflation, the scourge of the '70s, fail to materialize? An economic expansion normally brings inflation eventually, because, as the unemployment rate drops, wages begin to rise faster and employers respond by raising prices. Furthermore, as all available productive capacity is brought into use, product shortages lead to price boosts.

But this expansion has been different. It began from a severe recession, with unemployment at 10.7 percent, the highest since the Great Depression, and an industrial capacity-use rate of only 69 percent. It took five years of expansion, until late 1987, before the unemployment rate fell below 6 percent.

But even the recent unemployment rates of 5 percent to 5.5 percent have not been inflationary, because wages have not begun to rise rapidly. The Reagan years' government and corporate assault on organized labor so weakened unions that they are still rarely able to gain significant wage boosts. Last year hourly wages rose by only 3.1 percent.

But if the budget deficit continues to decrease, as it has over the past year, we can expect the expansion to come to an end soon.

Supply side promise unfulfilled: It is no surprise that the supply side policies did not perform as advertised. The best studies show that tax cuts have, at most, a small effect on investment. No one has been able to show any favorable effect on economic growth from social welfare program cuts. Deregulation may save a few dollars for some industries—at the cost of more pollution and job deaths—and with no guarantee that the savings will be productively invested.

The U.S. economy has indeed devoted a smaller share of GNP to investment than most other industrialized capitalist countries. But big government is not the explanation. European social democracies such as Sweden, Denmark and West Germany have much bigger welfare states, yet their economies have grown faster and invested more than the U.S. in the postwar period. The fastest grower and biggest investor has been Japan, which, far from following free-market policies, has a heavily state-guided capitalist economy.

Of course, socialists should not blindly follow the capitalist goal of maximum GNP growth, given the enormous problems created by such growth. But it is worth noting that the evidence strongly suggests that contemporary capitalist economies work best, in their own terms, when strongly guided by an interventionist state. By the standards of investment and GNP growth, the U.S. and Britain, with their laissez-faire policies, have performed at the bottom of the heap over the long run. ■

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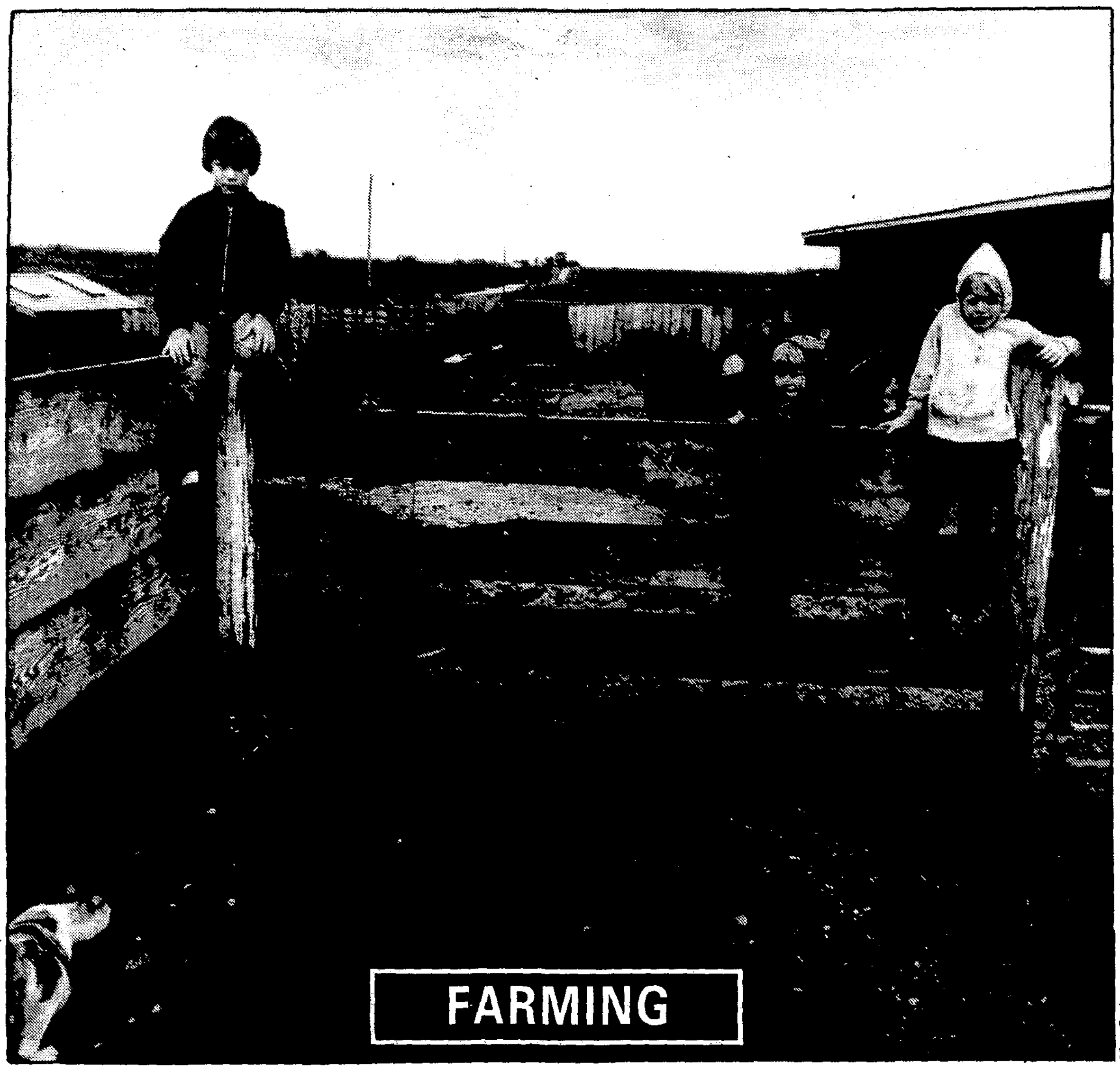
Growing interest in the Earth



FARMING

Meg Gerken

Family Farming: A New Economic Vision
By Marty Strange
University of Nebraska Press
311 pp., $7.50

By Charles Isenhart

FARMWORKERS AND WILDLIFE HAVE suffered pesticide poisoning for years. Fertile soil has been washing and blowing off agricultural land for decades. At various times and for their own reasons, farm and environmental groups have howled about such things, but rarely in unison.

Now, however, the ecological and health hazards of modern farm practices are getting sustained attention because another, broader constituency is getting into the act: consumers. Increasingly, average citizens worried about contaminated food and pesticide-polluted water are asking: how much longer can we put our tax and supermarket dollars into an agribusiness system that might be killing us?

The recent tariff squabble between the U.S. and the European Economic Community was a case in point. Ostensibly a dispute over free trade, it's actually rooted in Europeans' distates for hormone-treated meats and the associated health dangers. And consumers everywhere are challenging farmers and environmentalists to attend to problems they've been dancing around separately for too long.

A strange mix: Into this mix comes Marty Strange, matchmaker. For a work not apparently dedicated to environmental concerns (no chapter title has a conservationist bent), Strange's book on family farming sets a new standard of ecological conscience for books about American agriculture.

Instead of writing an obligatory section on farming's environmental aspects, Strange weaves his concern into the fabric of every topic he discusses—from land tenure to commodity prices to farm technology.

Strange—an ag policy analyst at the Center for Rural Affairs in Walthill, Neb.—is a cordial critic of both farmers and environmental advocates. After eight years of a Reagan administration hostile to their concerns, those environmentalists may have learned to get along better with each other, but Strange believes they could be more simpatico with other potential allies.

"Consumers, farmers, environmentalists—all three of those interest groups behave narrowly when they want to, which is most of the time," Strange told *In These Times*. "I work among those camps as much as anybody in the country. I see the selfishness at every corner, and environmentalists can be the worst."

For example? "They think social structure doesn't matter, in agriculture or any other area," he claims.

How long can we put our money into a potentially deadly agribusiness system?

"They say they're not worried about the deterioration of family farming, that they're worried about groundwater pollution, as if they weren't connected. Yet their guiding light is the principle that *all* things are connected."

Strange's book, *Family Farming: A New Economic Vision*, clearly and convincingly explains the connections among issues of farm size, land use and ownership, federal tax and commodity policies, as well as the spread of inappropriate technology. He shows how almost all of the issues involve farmers in degrading the environment and irretrievably consuming the Earth's resources.

Harmonic divergence: He identifies and links the various trends in agriculture. Chief among them is a move away from the myth of "family farming" toward the contrary values of "industrial agribusiness." In ideal ecological terms, Strange writes, "family farming strives for production processes in harmony with nature" and is "resource-conserving," compared with the "standardized" and "resource-consumptive" industrial style. "Most people who work the land have little or no hope of owning it. Those who own the land have no desire or need to farm for a living. Thus, many who actually farm have little long-term interest in conserving the land for future generations."

Strange links the changing social structure of agriculture to the threat it poses to nature and, in the long run, the substainability of national food production. In discussing the debate that "bigger" farms are supposedly "better" ones, he notes: "Most efficiency studies ignore social and environmental costs (e.g., groundwater depletion, pesticide contamination) because these costs are external to the farm. The study of economics is the study of selfishness, and therefore economists tend to ignore costs that the farm can force others to pay."

Diversified farm operations are ecologically safer than specialized ones, but, Strange asserts: "In agricultural economics, a bias against diversification persists, reflecting the conviction that doing one thing well on a large scale is more important than doing many things well on a small scale. It is a function of our fixation with maximums, and of our indifference to optimums."

Farmers go AWOL: Strange maintains that modern farming practices are being recognized as the No. 1 environmental issue in our society. (Indeed, as Congress begins to look at the *1990* farm bill, support for strengthened conservation measures is high.) But he says both farmers and environmentalists mistakenly pose the issue as farmer vs. environment.

While Strange calls "narrow" those environmentalists who ignore internal inequities in the farm economy, he says farmers are just as notable for being AWOL from the great social movements of our time. Meanwhile, "the search for an environmentally gentle way of producing food has barely begun, and is in great need of more ideas."

Strange recommends greater emphasis on preventive science. He suggests that for every public dollar spent developing new technologies, two should be spent anticipating their consequences.

But perhaps his boldest challenge is this: "If farmers are expected to steward natural resources even when doing so is not in their immediate self-interest, the rest of us must be willing to sacrifice the immediate benefits of cheap food for the long-range benefits of a sustainable food system."

In the picture of American agriculture Strange has painted, farmers and environmentalists are natural allies. Will another anti-ecology, anti-family-farming president be needed to forge the alliance? George Bush may be the man to do it. "I am an environmentalist!" he has declared. But if Strange is right about the need to reverse trends in agriculture and restrain unfettered technology, then Bush has some explaining to do. In one of his stump campaign speeches on farming, Bush said, "We are riding giant trends of history and technology that we cannot stop."

But if you believe Marty Strange, we *have* to. And environmentalist farmers must be the ones to do it. ■

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